



CIO Weekly

27 April 2021

Key Points

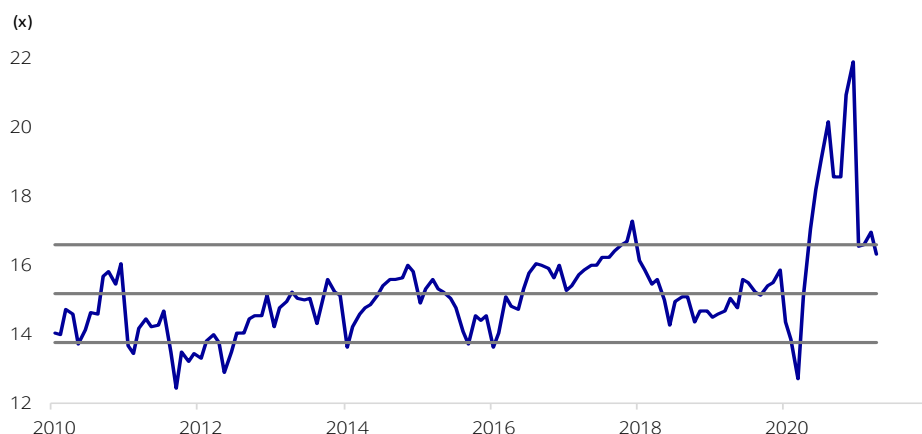
- **Equities:** Pause in emerging ASEAN markets and Singapore's reflation to survive virus resurgence
- **Credit:** Underlying shift towards quality in Global HY
- **FX:** DXY underpinned at 90.8 ahead of FOMC; EUR failed to push above 1.21 amid disappointing German IFO survey data
- **Rates:** 10Y SGS looks compelling for USD-based investors
- **Thematics:** Best upcycle in a decade for steel
- **The Week Ahead:** Keep a lookout for US change in initial jobless claims; Japan industrial production numbers

Equities: Turning defensive in emerging ASEAN

Following a resurgence in India's virus cases, ASEAN markets may be in a precarious position in the coming months as investors temper growth expectations in these markets. To be sure, ASEAN benefitted from the vaccine discovery trade since we flagged it out in August last year. While trading on hope, export-oriented markets like Singapore benefitted from a turnaround in exports growth due to strengths in China and the Tech sector, as well as appropriate COVID control measures. Emerging ASEAN markets are hoping for the easing of the pandemic to open its Tourism industry for the case of Thailand, and for consumption to pick up in the case of Indonesia and the Philippines.

Thus far, earnings expectations have not returned to pre-COVID levels for the majority of the emerging ASEAN markets, and we are concerned that earnings recovery may be further delayed in view of the virus resurgence. Meanwhile, 12-month forward earnings are still at +1SD above average and markets are trading on expectations that earnings would normalise soon.

Figure 1: ASEAN markets will continue to be expensive if there is a delay in earnings recovery



Note: Bands are average and +/-1 standard deviation bands

Source: Bloomberg, DBS

Global cross assets

Returns of cross assets around the world

Index	Close	Overnight	YTD
DJIA	33,981.57	-0.2%	11.0%
S&P 500	4,187.62	0.2%	11.5%
NASDAQ	14,138.78	0.9%	9.7%
Stoxx Europe 600	440.20	0.3%	10.3%
DAX	15,296.34	0.1%	11.5%
CAC 40	6,275.52	0.3%	13.0%
FTSE 100	6,963.12	0.4%	7.8%
MSCI AxJ	891.78	0.5%	5.8%
Nikkei 225	29,126.23	0.4%	6.1%
SHCOMP	3,441.17	-0.9%	-0.9%
Hang Seng	28,952.83	-0.4%	6.3%
MSCI EM	1,360.64	0.6%	5.4%
UST 10-yr yield*	1.57	0.6%	65.4
JGB 10-yr yield*	0.08	16.9%	5.9
Bund 10-yr yield*	-0.25	-1.9%	31.8
US HY spread*	2.91	-2.3%	-69.0
EM spread*	316.65	0.7%	-6.3
WTI (USD)	61.91	-0.4%	27.6%
LMEX	4,124.10	1.9%	20.8%
Gold (USD)	1,781.38	0.2%	-6.2%

Source: Bloomberg

* Changes in basis points

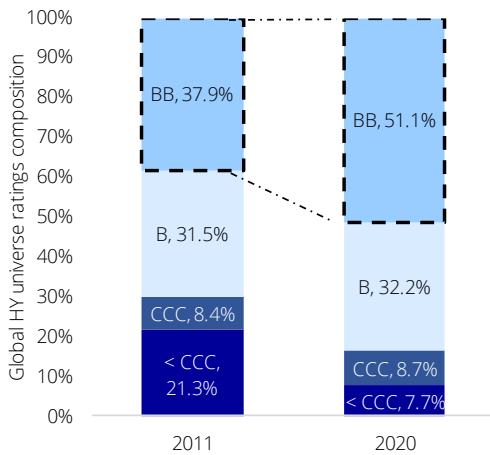
Currencies in emerging ASEAN markets have depreciated against USD this year due to an unexpected rise in US bond yields, driving bond outflows and weakening the currencies. The inverse relationship between ASEAN markets and the dollar is strong as these markets, which generally depend on foreign risk appetite and flows, would be deemed unattractive from a total return perspective when their currencies weaken.

We thus turn defensive on emerging ASEAN markets before pandemic concerns ease. We should be watchful in the upcoming Hari Raya festive season for risk of a new wave emerging. Singapore should be well placed for reflation trade as the economy looks to recover and reopen amid tight control measures which are still in place. The market trades at low price-to-book ratio, which is still inexpensive and presents merger and acquisition opportunities. Dividend yields among REITS and Banks are attractive when compared to low bond yields.

Joanne Goh | Strategist

Credit: Underlying shift towards quality in Global HY

Figure 2: Global HY now skewed towards higher quality BB segment



Source: Bloomberg, DBS

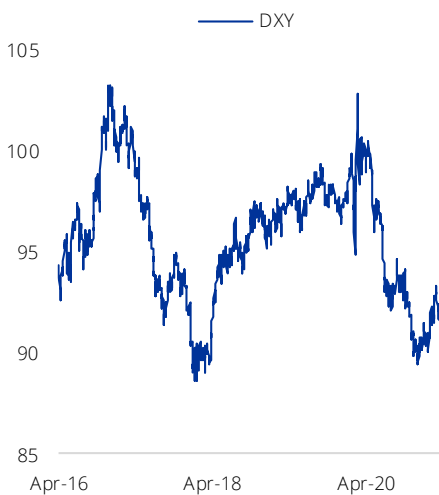
A resurgence in viral infections – primarily in India and Brazil – has revealed that expectations of a vaccine-led virus eradication running unopposed may have been rather optimistic. Classic market price action followed in its wake, with treasury bonds and gold staging a strong rally as hopes of a synchronised global recovery were tempered. Curiously, the flight-to-quality response was not as obvious in credit markets – with month-to-date returns in April in global High Yield (HY) at +1.87% actually exceeding that of Investment Grade (IG) at +1.70%, once again supporting our preference for HY over IG (please refer to “New Fed framework favours HY over IG”, 31 Aug 2020) in credit markets.

This response is not as anomalous as it seems once we consider the shifting trend in quality underlying the global HY indices. While BBs used to account for only c.38% and CCC & below, making up c.30% of global HY in 2011, the composition has now shifted to c.51% in BBs and only c.16% in CCC & below in 2020 – indicating that the broader HY universe is now skewed towards better credit quality names. Curiously, the steady flow of “fallen angels” (bonds downgraded from IG to HY) may have ironically served to improve the average credit quality of the global HY universe over the last decade. In light of this, we continue to recommend that investors maintain an allocation to HY credit (please refer to “Why High Yield credit deserves another chance”, 15 Apr 2021) to augment the risk-return profile of their credit portfolios.

Daryl Ho | Strategist

FX: Holding ground ahead of FOMC

Figure 3: Holding steady



Source: Bloomberg, DBS

The US Dollar index (USD) was underpinned at 90.8 on a steady US Treasury 10Y yield around 1.57% **ahead of the Federal Open Market Committee (FOMC) meeting** that starts Tuesday (27 April). Markets have grown accustomed to the Federal Reserve’s well-intentioned assurance to keep monetary policy accommodative until the US economy achieves a complete recovery from the pandemic. Yet, it was difficult to brush off the notable increase in mentions of inflation from higher raw materials, transportation, and labour costs during the earnings calls of US companies. The FOMC statement will be scrutinised on when the Fed will pave the way to taper asset purchases. According to a Bloomberg survey, 45% of the respondents reckoned this could arrive as early as the Fed’s Jackson Hole Symposium in August.

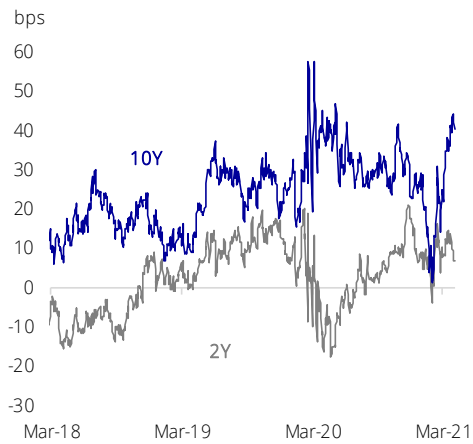
EUR failed to push above 1.21 against USD. Last Friday’s (23 April) disappointing German IFO survey broke a series of upside data surprises that lifted EUR above 1.20 this month. IFO expectations slipped below 100 to 99.5 in April while March was revised down to 100.3 from 100.4. Last week, Germany signed into law “emergency brake” measures to contain the third wave of COVID-19 infections. This has resulted in nationwide pandemic restrictions that would roll back the reopening of Europe’s largest economy to end-May or as late as June. Under the new legislation, 15 out of the 16 German states have reported at least 100 new infections per 100,000 residents over three consecutive days and would be required to impose tough restrictions such as curfews.

INR’s appreciation below 75 per USD is considered a relief rally. The World Health Organization has described India’s surge in COVID-19 infections as “beyond heartbreaking”. India has, on 24 April, imposed a temporary ban on vaccine exports that could upset the current global vaccination drive. Brent crude oil prices fell by 0.2%, 0.4%, and 0.7%, respectively, after the Organization of the Petroleum Exporting Countries’s experts warned that the COVID-19 resurgences in India, Brazil, and Japan may weigh on their optimistic projections for a strong recovery in global oil demand. Despite their strong overnight gains, the market is likely to be cautious on AUD and NZD now that they have neared their March highs.

Philip Wee | FX Strategist

Rates: Compelling 10Y SGS pickup

Figure 4: SGS pickup over UST



Source: Bloomberg, DBS

10Y Singapore Government Securities (SGS) look very compelling for USD-based investors. First, the USDSGD basis swaps is deeply negative, offering substantial pickup for swapping USD into SGD. This rate has ground lower to -33 bps from around -24 bps in early March. Second, the SGS-swap spread (defined as swap rate less yield) is now in negative territory (-11 bps). These developments reflect fears of SINGA bond issuances leading to a premium being built for longer-term SGSs, in our view. Moreover, investors could be building concessions in the longer tenors ahead of the 15Y SGS auction on 28 April.

Meanwhile, swap rates have also eased as the SGD strengthened and SGD liquidity improved. Based on these two factors, **the pickup in 10Y SGS over comparable 10Y UST is in the 98th percentile, using data compiled to 2010.** Even as the local bond market gets jittery, we think that foreign investors will be enticed by the pickup.

Eugene Leow | Rates Strategist

Thematics: Steel is in the best upcycle in a decade

- Following the rally in steel prices, we raise our steel price forecasts amid higher global steel demand growth
- Margins for steel players are improving significantly despite higher raw material price
- China's policy changes and US infrastructure spending are key catalysts, going forward

Stronger-than-expected price rally. World benchmark hot rolled coil (HRC) and Chinese domestic HRC prices have rallied to USD911/tonne and USD708/tonne (after value-added tax) on 7 April, rising 36% and 22% year-to-date (YTD), respectively. The robust steel price uptrend is attributable to i) higher input costs from strong iron ore prices that surged 14% YTD to USD184/tonne after registering 78% growth in 2020, and ii) tighter market situation on rapidly improving steel demand, fuelled by stocking by steel using industries. Accordingly, we raise our steel price forecasts for 2021/2022 by 27%/22%, respectively.

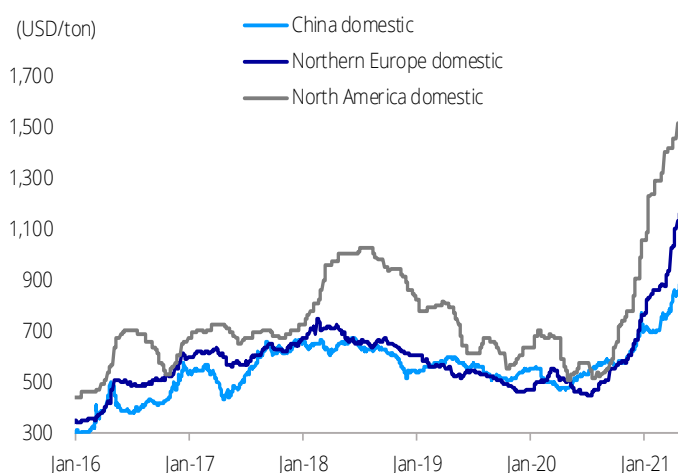
Bumping up steel demand forecasts. We raise our global steel demand growth forecast for 2021 to 6.2% y/y from 5.3% previously. Global steel demand growth will largely be driven by the rest of the world excluding China with 11% y/y growth in 2021, while demand growth in China will decelerate to 2.5% in 2021 from 9.6% in 2020. This is in line with the upturn in the economic cycle with the rollout of vaccines and government fiscal stimulus. Accordingly, sales volume growth will magnify earnings growth via top-line growth and savings on fixed costs.

Key catalysts – Joe Biden's bill for infrastructure investments and China's policy to restrict steel production. Over 60% of the US's budgeted infrastructure investment projects will lead to an increase in steel demand, especially with road/bridge/railway/public transit projects consuming steel products to a large extent. This would boost steel demand in the US, which is the third largest steel consuming country in the world, by 3-4%. Conversely, China will enhance its restrictions on steel production by potentially unveiling a tax rebate cut for steel exports and output cuts in major steel-producing city, Tangshan.

Upside potential remains despite share price rallies. We recently raised our target prices for our steel coverage to factor in positives in the sector. Despite the strong share price run-up of over 30% on average for steel players under our coverage over the last three months, the stocks are still trading below 1x FY21F price-to-book value. As DBS Group Research expects 2021 to see the best upcycle in over a decade, we believe that there would be more upside potential for stock prices. We believe POSCO (005490 KS), Hyundai Steel (004020 KS), and Angang Steel (347 HK) stand to benefit the most from a steel market recovery and register the strongest earnings growth in 2021.

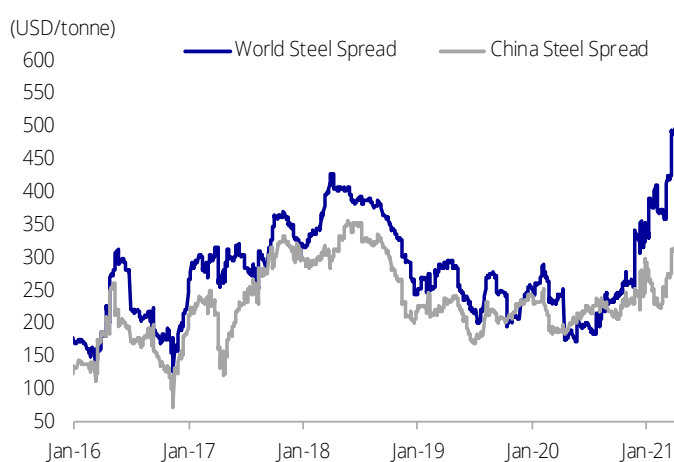
LEE Eun Young | Analyst
Duncan CHAN | Analyst

Figure 5: HRC prices by region



Source: Bloomberg, DBS

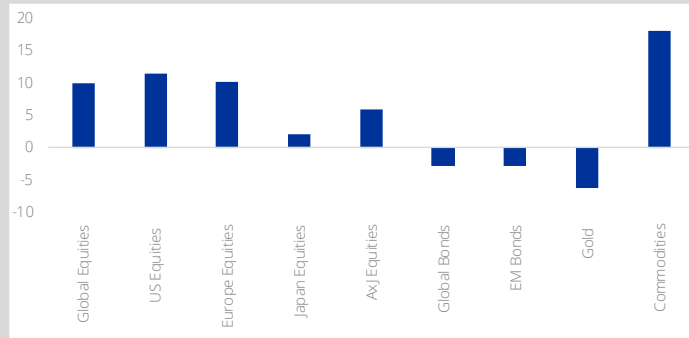
Figure 6: World HRC spread vs China domestic HRC spread



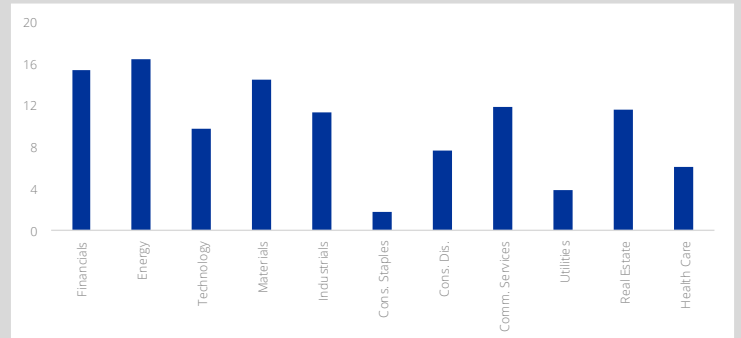
Source: DBS

CIO Markets Watch

Global Cross Assets YTD Returns



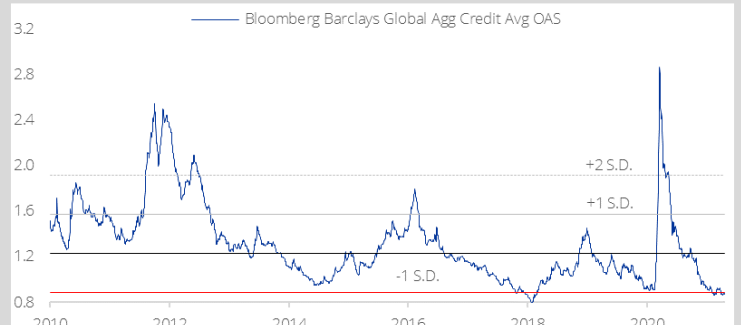
Global Sector YTD Returns



Global Equity Valuation



US Corporate Spreads



Index Returns

	1 week	MTD	QTD	YTD
Equities				
S&P 500	0.6%	5.4%	5.4%	11.5%
NASDAQ	1.6%	6.7%	6.7%	9.7%
Russell 2000	3.0%	3.5%	3.5%	16.4%
Stoxx Europe 600	-0.4%	2.5%	2.5%	10.3%
Nikkei-225	-1.9%	-0.2%	-0.2%	6.1%
MSCI WORLD	0.4%	5.1%	5.1%	9.9%
MSCI ACWI	0.5%	4.9%	4.9%	9.3%
MSCI Asia ex-Japan	0.9%	3.3%	3.3%	5.8%
MSCI EM	0.9%	3.4%	3.4%	5.4%
HSCEI	-1.0%	0.1%	0.1%	2.3%
SHCOMP	-1.0%	0.0%	0.0%	-0.9%
Hang Seng	-0.5%	2.0%	2.0%	6.3%
STI Index	-0.2%	1.2%	1.2%	12.7%
Fixed Income				
Barclays Global Aggregate	0.3%	1.7%	1.7%	-2.8%
Barclays US Aggregate	0.2%	0.9%	0.9%	-2.5%
Barclays US High Yield	0.1%	1.0%	1.0%	1.8%
Barclays Euro Aggregate	0.1%	-0.3%	-0.3%	-2.1%
Barclays Euro High Yield	-0.2%	0.3%	0.3%	2.5%
JPM EMBI Global	-0.3%	2.0%	2.0%	-2.8%
JPM EMBI Global Diversified	0.0%	2.4%	2.4%	-2.6%

Prices & Spreads

	Spot	1Q21	4Q20	3Q20
Rates				
Fed Funds Target	0.25	0.25	0.25	0.25
ECB Main Refinancing Rate	0.00	0.00	0.00	0.00
BOJ Policy Balance Rate	-0.10	-0.10	-0.10	-0.10
US Treasury 10-yr	1.57	1.74	0.92	0.69
Japanese Govt Bond 10-yr	0.08	0.09	0.02	0.01
German Bunds 10-yr	-0.25	-0.29	-0.57	-0.52
Spreads				
US Agg Corporate Spread	0.89	0.91	0.96	1.36
US Corporate HY Spread	2.91	3.10	3.60	5.17
Euro Agg Corporate Spread	0.89	0.94	0.95	1.23
EM USD Agg Spread	2.63	2.67	2.68	3.34
Currencies				
US Dollar Index (DXY)	90.8	93.2	89.9	93.9
EUR/USD	1.21	1.17	1.22	1.17
USD/JPY	108.1	110.7	103.3	105.5
USD/CNY	6.5	6.6	6.5	6.8
Commodities				
WTI Oil	62	59	49	40
London Metal Exchange (LMEX)	4124	3787	3415	2968
TR/CC CRB Commodity	198	185	168	149
Gold	1781	1708	1898	1886

CIO Economics Watch

US Economic Surprise Index



Asia Pacific Economic Surprise Index



Macro Calendar

	Date	Period	Survey	Prior
United States & Eurozone				
Initial Jobless Claims (US)	29-Apr	24-Apr	540k	547k
FOMC Rate Decision (Upper Bound) (US)	28-Apr	28-Apr	0.25%	0.25%
GDP Annualised q/q (US)	29-Apr	1Q	6.80%	4.30%
ISM Manufacturing (US)	03-May	Apr	65	64.7
U. of Mich. Sentiment (US)	30-Apr	Apr	87.5	86.5
Conf. Board Consumer Confidence (US)	27-Apr	Apr	113	109.7
MBA Mortgage Applications (US)	28-Apr	23-Apr	--	8.60%
GDP SA q/q (EU)	30-Apr	1Q	-0.80%	-0.70%

Macro Calendar

	Date	Period	Survey	Prior
Asia				
Industrial Production m/m (JP)	29-Apr	Mar	-2.00%	-1.30%
Jobless Rate (JP)	29-Apr	Mar	2.90%	2.90%
Manufacturing PMI (CN)	29-Apr	Apr	51.7	51.9
Tokyo CPI Ex-Fresh Food y/y (JP)	29-Apr	Apr	0.00%	-0.10%
Caixin China PMI Mfg (CN)	03-May	Apr	50.9	50.6
Jibun Bank Japan PMI Mfg (JP)	29-Apr	Apr	--	53.3
Job-To-Applcmt Ratio (JP)	29-Apr	Mar	1.09	1.09
Purchasing Managers Index (SG)	03-May	Apr	--	50.8

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